

# The Bank of England twists and turns

I thought the interest rate cut some weeks after the Brexit vote was needless last summer. The economy was speeding up at the time, credit growth was lively, house prices and home building were on the up, new cars sales growing strongly and unemployment coming down. The Bank had all the wrong forecasts , arguing that unemployment would rise, jobs would fall, house prices would fall and confidence would crash. Instead of looking at the data the Bank trusted its own wrong forecasts and cut rates!

Yesterday the Bank did the opposite. The data shows house prices slowing, car sales falling, credit growth slowing and money growth retreating. The Bank should know that because it has deliberately brought it about by ordering a credit tightening under its macro prudential powers. The latest retail sales figures, growth figures and house prices figures are showing much slower rates of growth than in the summer of 2016. So what does the Bank do? It puts rates up!

Its argument is s sloppy one. It says we are getting close to capacity, and cites the fall in unemployment. This it says requires a rate rise to bring inflation back to target though it has previously always said the inflation spike this autumn is a one off which will subside.

It is odd that the MPC in its explanation of the economy refers to Brexit several times and makes no reference to the Bank's own monetary tightening, reduction of credit growth and tax attacks on housing and cars by the government. The Bank seems to have lost its impartial interest in the figures and gained an unhealthy wish to blame Brexit for anything adverse. If Brexit is such an all pervasive influence why doesn't it get the credit for the strong jobs growth, the rise in housebuilding and the strong manufacturing performance over the last year?

If you look at a graph of car sales they rise strongly up to March 2017, with no effect from the vote or the Article 50 letter but a big effect from the budget and government statements on diesels. If you look at a graph of BTL investment you see it takes big hit in April 2016 before the vote when the government introduced big tax rises. I suggest people look at the evidence instead of trotting out alleged Brexit effects for bad news, and saying despite Brexit for good news.

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## South Western trains strike

I met with Andy Mellors, the MD of SW Trains to ask him about the RMT planned strike on 8 and 9 November. Other local MPs were also present.

Mr Mellors said the company had contingency plans should the strike go ahead. They aimed to run most services, with a few being covered by a replacement bus service. Travellers should go on to their website before travel on the strike days to see the latest position.

The RMT strike threat has arisen over the introduction of new trains to the network. These trains have the capability for driver operated doors. The Company wishes the drivers to carry out this function, but has guaranteed they will roster a guard for every train and each guard will continue to have safety training. The Guard's role will be to work for and with the passengers more than at present. The Company will be recruiting more staff and will not be making guards redundant.

The new trains are crucial to increasing capacity and improving passenger comfort. They are air conditioned and more spacious.

I stressed the need for the Company and the Union to put passenger needs first, and to seek an answer to their dispute.

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## A brick shortage

Whilst official forecasters and the clever moaners were telling us of a housing collapse in the UK after the Brexit vote, we saw instead continued increases in new housebuilding, strong demand, and a brick shortage.

UK brick capacity was slashed from 2.6bn bricks a year in 2007 to 2bn as a result of the crash. The Great recession led to many brick kiln and plant closures and reminds us of how much damage this did. In recent years as a result the UK has turned to importing more bricks from the continent whilst we await new plant investment to replace the lost output and meet our domestic demand.

Bricks are heavy items to transport, so the imported product has to carry the extra costs of long distance journeys. It is taking time to rebuild UK capacity, though Ibstock are currently putting in a 100m brick plant which should come on stream soon.

Building materials generally is an area where the UK can and should do more to substitute home production for imports given the transport cost advantage of home output. It is also the case that builders often prefer to buy locally as it reduces threats to their supplies which distant factories and busy roads and ferries can create.

Brexit will offer us many opportunities to substitute home production for EU exports, especially in food if they opt for the WTO model with tariffs.

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## Controlling public spending

The Treasury is worried about the need to control spending as it still wants to eliminate the deficit during the next decade and to reduce it this Parliament. Its task is likely to be made harder by the well leaked suggestion that the OBR will slash their forecasts for productivity growth for the next five years, which in turn will cut their estimates of tax revenue and boost their forecast for the deficit. This is the body which was too pessimistic this year with its deficit forecasts. The deficit so far is £13bn less than their guess.

I am all in favour of eliminating waste, spending more wisely, and concentrating spending on priorities. I would suggest the Treasury could do a much better job in each of those areas. It also needs to get its own views into line with public perceptions of where we are spending too much and where we need to spend more. Here are some areas for savings.

1. The EU. The Treasury seems to be in the lead to carry on paying large sums to the EU for as long as possible, and even to pay them a large lump sum we do not owe them. They need to understand that a majority of voters wants to end our contributions in March 2019 and has no wish to pay them any additional money, as there is no legal requirement to do so. This would be the single largest saving the state has achieved for a good few years.
2. Overseas Aid. Parliament is unlikely to want to revisit the pledge to pay 0.7% of GDP, but many MPs as well as voters do want to make sure we spend the Overseas Aid on items that help. We need to revise our and the international definitions to make sure that all military spending on disaster relief, peace keeping and in some cases peace making is charged to the Overseas Aid budget. We need to ensure that when we go to help Caribbean islands the money spent is also charged to Overseas Aid.
3. Railways. We need better financial discipline at Network Rail where I have in the past highlighted their losses and questionable expenditures. We need more rail capacity but this should be primarily brought about by smarter signalling. If we pressed ahead with this we would not need to build expensive new lines as we can run more trains on what we have already.
4. Housing. A good system for more homes for sale will limit the amount of public capital needed to provide more homes. Moving to a new borders and migration policy could also cut some of the pressures on the housing budget.

We do need to spend sufficiently on schools and hospitals, and need to provide the cash for pay rises as these come through in the public sector.

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## The planes will fly and the City will be fine

The Bank of England has told its regulated businesses to prepare for No Deal. It has also asked them how many jobs would be lost on the worst case scenario from the City. Their answer, we are told today, is 75,000. It is difficult to believe their figure. What I see is companies continuing to commit to new space and new recruits in London at a time when there is no sign of a deal. I also hear from the continent that many financial businesses there are keen to keep their access to London and its large pools of talent and capital. The Bank at least has scaled back its gloom, which got all its forecasts wrong about growth and job losses for 2016-17 on the back of a No vote. UK Employment increased then when they said it would fall.

Meanwhile one of the gloomy worries put around that the planes will not fly the day after Brexit if we leave without a deal has been refuted by someone who should know. Willie Walsh, the CEO of British Airways has said he expects the planes to fly. Will the doom mongers now stop using this absurd forecast? BA is owned by IAG who have every interest in UK planes flying to the continent and Spanish planes flying to the UK. They are right to expect that to continue, even without a UK/EU general Agreement.